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# Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 L-03 AID-05 OPIC-06 OMB-01 HUD-02

IGA-01 TRSE-00 COME-00 /036 W
---------- 080792
R 061525Z JUN 75
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 0414

UNCLAS SECTION 1 OF 2 SAN JOSE 2322

E.O. 11652: N/A
TAGS: EINV, CS
SUBJECT: OPIC HOUSING GUARANTY PROJECT

REF: STATE 110142

1. SUMMARY: THIS MESSAGE COMMENTS ON SOME INFORMATION PROVIDED BY OPIC CONCERNING A PROJECT TO PROVIDE POLITICAL RISK INSURANCE FOR THE CONSTRUCTION OF MIDDLE OR UPPER-MIDDLE INCOME HOUSING IN COSTA RICA. IT ALSO NOTES A NUMBER OF OTHER POINTS RELATING TO THE PROJECT WHICH HAVE BEEN PREVIOUSLY RAISED BY THE EMBASSY AND NOT YET FULLY DEALT WITH. THE EMBASSY BELIEVES THAT SOME OF THESE ISSUES, WHICH GO BEYOND THE QUESTIONS SPECIFICALLY PUT TO THIS EMBASSY, SHOULD BE REVIEWED NOT ONLY BY OPIC, BUT ALSO BY THE DEPARTMENT'S LEGAL OFFICE. THE EMBASSY ALSO BELIEVES THAT THIS PROJECT SHOULD BE STUDIED BY POLICY-LEVEL OFFICIALS IN THE DEPARTMENT AND PERHAPS ALSO IN THE OFFICE OF MANAGEMENT AND BUDGET, BECAUSE IT IS A PROTOTYPE FOR A WHOLE NEW KIND OF GOVERNMENT PROGRAM UNDER WHICH THE SPONSOR-WING OPIC INSURANCE, PROPOSES TO MOVE SOME $500 MILLION IN U.S. SAVINGS AND LOAN FUNDS INTO THE FINANCING OF MIDDLE OR UPPER-MIDDLE CLASS HOUSING IN VARIOUS COUNTRIES IN LATIN AMERICA. END SUMMARY.

2. THE EMBASSY AGREES WITH THE DEPARTMENT THAT AN IMPORTANT CONSIDERATION (BUT NOT THE PRINCIPAL CONSIDERATION) IN UNCLASSIFIED

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ASSESSING TURBOW'S EL ROBLEDAL PROJECT IS "WHETHER THERE

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IS GOOD REASON TO BELIEVE THIS PROJECT WOULD ENGENDER
CRITICISM FROM WITHIN OR WITHOUT THE GOCR LIKELY TO
ENDANGER THE PROJECT ITSELF NOW OR AT SOME FUTURE TIME,
OR TO WORSEN THE CLIMATE FOR FUTURE FOREIGN INVESTMENT."
THE POSITION OF THE COSTA RICAN GOVERNMENT TOWARD THIS PROJECT
IS NOT CLEAR AT THIS TIME. OPIC HAS OBTAINED SUPPORT FROM
THE MINISTER OF PLANNING, BUT HE CAN SPEAK ONLY FOR
HIMSELF, NOT FOR THE GOVERNMENT. THE MINISTRY OF
ECONOMY IS THE AUTHORIZED CHANNEL THROUGH WHICH THE
OFFICIAL POSITION OF THE GOCR ON OPIC PROJECTS MUST BE
COMMUNICATED. AS REPORTED IN A MEMCON DATED MAY 28, 1975,
PREVIOUSLY POUCHED BY THE EMBASSY, THE MINISTER OF ECONOMY,
INDUSTRY AND COMMERCE HAS TOLD THE PROJECT'S LOCAL LAWYER
THAT HE IS UNLIKELY TO GIVE HIS APPROVAL TO THE PROJECT
UNLESS HE IS PRESSED TO DO SO BY THE EMBASSY.
REGARDING CONSISTENCY WITH GOCR DEVELOPMENT PRIORITY,
IT SEEMS QUESTIONABLE THAT BORROWING LARGE AMOUNTS OF
MONEY ABROAD TO FINANCE MIDDLE-INCOME OR UPPER-MIDDLE
INCOME HOUSING IS CONSISTENT WITH ANNOUNCED PRIORITIES
OF THE GOVERNMENT WHICH RELATE TO CLOSING THE SOCIAL GAP
BY IMPROVING THE LOT OF THE POOR AND UNDERPRIVILEGED.
HOWEVER, GIVEN THE CENTRAL BANK'S INTEREST IN ANY KIND
OF INFLOW OF FUNDS FROM ABROAD AND THE DEPRESSED STATE
OF THE CONSTRUCTION INDUSTRY AT PRESENT, THE GOVERNMENT
MIGHT ULTIMATELY DECIDE TO ENDORSE THIS PROJECT. AT
THIS TIME IT IS NOT POSSIBLE TO PREDICT WHAT DECISION WILL
BE MADE.

3. CRITICISM OF THE USG IN RELATION TO THIS PROJECT
COULD BE BASED ON: ADDING TO COSTA RICA'S ALREADY
HEAVY FOREIGN DEBT BURDEN FOR A LOW-PRIORITY PURPOSE;
POOR ALLOCATION OF U.S. FUNDS IN THAT THIS PROJECT
WOULD PROVIDE FOR A LOW-PRIORITY PURPOSE $4.3 MILLION
IN ONE YEAR, WHICH IS APPROXIMATELY EQUAL TO THE TOTAL
AMOUNT OF U.S. ASSISTANCE, INCLUDING THE PIPELINE, BEING
PROVIDED BY A.I.D. FOR SUPPOSEDLY HIGH-PRIORITY
DEVELOPMENT PURPOSES; ENCOURAGING INFLOW OF FOREIGN
CAPITAL INTO THE SENSITIVE LANDOWNERSHIP SECTOR; AND
THE FACT THAT USG HAS NOT AS YET ACTED ON SEPARATE
CENTRAL BANK REQUEST FOR BILATERAL HIG GUARANTEE
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FOR LOW-COST HOUSING.

4. IN THE EMBASSY'S VIEW, THE PRINCIPAL QUESTIONS
ABOUT THIS PROJECT RELATE TO ITS LACK OF POSITIVE
DEVELOPMENT IMPACT AND THE SENSITIVITY OF REAL ESTATE
PROJECTS IN THE PRESENT POLITICAL CLIMATE IN COSTA RICA,
WHICH WAS THE BASIS FOR THE POLICY GUIDELINES AGREED TO BETWEEN
THE EMBASSY AND OPIC IN 1974. THE FOREIGN ASSISTANCE ACT

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OF 1969 SET FORTH NEW GUIDELINES FOR ADMINISTRATION OF
OPIC'S INVESTMENT INSURANCE PROGRAM (SECTION 231 FAA)
WHICH REQUIRE OPIC "TO ENCOURAGE AND SUPPORT ONLY THOSE
PRIVATE INVESTMENTS IN LESS DEVELOPED FREE COUNTRIES
AND AREAS WHICH ARE SENSITIVE AND RESPONSIVE TO THE
SPECIAL NEEDS AND REQUIREMENTS OF THEIR ECONOMIES, AND
WHICH CONTRIBUTE TO THE SOCIAL AND ECONOMIC DEVELOPMENT
OF THEIR PEOPLE." THE EMBASSY QUESTIONS WHETHER THIS PROJECT
MEETS THIS CRITERIA. STATISTICS REPORTED IN SAN JOSE
1684 SHOW THAT ONLY 3 PERCENT OF THE WAGE AND SALARY
EARNERS IN COSTA RICA COULD AFFORD THE $30,000 HOUSING THAT
WOULD BE PROVIDED BY THIS PROJECT. THUS, THE PRIMARY PURPOSE
SERVED BY THE PROJECT WOULD APPEAR TO BE TO EASE THE
CREDIT TERMS AND MORTGAGES AVAILABLE TO UPPER-MIDDLE
INCOME PERSONS OF THE PROFESSIONAL AND MIDDLE-MANAGEMENT
CLASS. THE EMBASSY BELIEVES THAT THE DEPARTMENT'S
LEGAL STAFF SHOULD STUDY THIS POINT AND A NUMBER OF OTHER
POINTS MENTIONED IN THIS AND PREVIOUS MESSAGES WHICH
RELATE TO THE LEGALITY OF VARIOUS ASPECTS OF THIS PROPOSED
PROJECT.

5. THE EMBASSY ALSO BELIEVES THAT THIS PROJECT SHOULD
BE REVIEWED AT THE POLICY LEVEL IN THE DEPARTMENT AND
PERHAPS ALSO IN THE OFFICE OF MANAGEMENT AND BUDGET
BECAUSE WHAT IS CONTEMPLATED HERE BY THE SPONSOR IS NOT
MERELY ONE PROJECT ABROAD BUT A WHOLE NEW USG PROGRAM
WHICH WOULD FACILITATE MOVEMENT OF $500 MILLION OR MORE
ABROAD FROM U.S. SAVINGS AND LOAN INSTITUTIONS TO
FINANCE MIDDLE-INCOME OR UPPER-MIDDLE INCOME HOUSING IN
LATIN AMERICA. THE SPONSOR, TURBOW, HAS TOLD THE
EMBASSY THAT HE CONTEMPLATES A TOTAL PROGRAM OF SOME
$500 MILLION IN A NUMBER OF LATIN AMERICAN COUNTRIES,
ALL ON THE SAME PATTERN AS THE PROTOTYPE HE HAS PROPOSED
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FOR COSTA RICA.

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INFO OCT-01 ARA-10 ISO-00 L-03 AID-05 OPIC-06 OMB-01 HUD-02

IGA-01 TRSE-00 COME-00 /036 W
---------- 082650
R 061525Z JUN 75
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 0415

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THE FUNDS WOULD COME FROM 1 PERCENT OF THE ASSETS OF U.S. SAVINGS AND LOAN INSTITUTIONS, A POOL OF SOME $3 BILLION OF WHICH A.I.D.'S HOUSING GUARANTY PROGRAM NOW REPORTEDLY USES ONLY $400 MILLION TO $500 MILLION. AT A TIME WHEN A.I.D.'S HOUSING GUARANTY PROGRAM HAS BEEN STRONGLY PRESSED BY THE CONGRESS TO GET INTO EXCLUSIVELY LOW-INCOME HOUSING, AN IMPORTANT POLICY QUESTION ARISES AS TO WHETHER THE USG WISHES TO START A NEW KIND OF PROGRAM, UNDER OPIC AUSPICES, UNDER WHICH U.S. MORTGAGE FUNDS WOULD BE MOVED ABROAD FOR MIDDLE AND UPPER-MIDDLE INCOME HOUSING. IT WOULD APPEAR THAT SUCH A PROGRAM, THROUGH OFFERING HIGHER RATES OF INTEREST TO U.S. SAVINGS AND LOAN INSTITUTIONS, WOULD BE MOVING U.S. MORTGAGE FUNDS ABROAD BOTH WHEN SUCH FUNDS ARE PLENTIFUL AND WHEN THEY ARE IN SHORT SUPPLY. WITH REGARD TO THE IMPACT ABROAD, IT WOULD APPEAR THAT SUCH A PROGRAM WOULD NOT SO MUCH PROVIDE SHELTER TO THOSE WHO COULD NOT OTHERWISE OBTAIN IT AS IT WOULD IMPROVE THE MORTGAGE TERMS AVAILABLE TO PERSONS WHO HAVE THE ECONOMIC STANDING TO ACCUMULATE SAVINGS AND TAKE OUT MORTGAGES THROUGH THE NORMAL COMMERCIAL AND GOVERNMENTAL FACILITIES AVAILABLE IN LATIN AMERICAN COUNTRIES.

6. ALTHOUGH THE REFTEL PROVIDED SOME USEFUL ADDITIONAL INFORMATION ABOUT OPIC'S THINKING ON THE TURBOW PROJECT, IT DID NOT FULLY DEAL WITH A NUMBER OF OTHER QUESTIONS, INCLUDING SEVERAL RAISED BY THE EMBASSY IN PREVIOUS COMMUNICATIONS. WE RECOGNIZE THAT SOME OF THEM GO WELL
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BEYOND THE SPECIFIC QUESTIONS ON THIS PROJECT WHICH HAVE BEEN PUT TO THE EMBASSY BY OPIC AND THE DEPARTMENT, AND RELATE INSTEAD TO BROADER QUESTIONS OF PUBLIC POLICY WHICH NEED TO BE ADDRESSED. FOR CONVENIENCE, THE OUT-STANDING QUESTIONS INCLUDE

) FROM SAN JOSE 4870 OF DECEMBER 24, 1974, THE LACK OF EQUITY INVESTMENT BY THE APPLICANT (PARA 3);

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THE PROBLEM OF OFFERING OPIC INSURANCE TO A
PROMOTER OR MIDDLEMAN RATHER THAN TO THE INVESTORS,
WHICH WOULD APPARENTLY BE THE U.S. SAVINGS AND LOAN
INSTITUTIONS (PARAGRAPH 4); AND THE APPARENT CONFLICT
WITH OPIC POLICY AGAINST SUPPORTING LAND PROJECTS,
AND IN PARTICULAR REAL ESTATE SUBDIVISIONS (PARAGRAPH
1).

B) REGARDING THE LAST POINT, IT WOULD APPEAR THAT,
REGARDLESS OF THE FINANCIAL INTERMEDIARY WHICH
TURBOW PLACES BETWEEN THE U.S. INVESTORS AND
THE HOUSING PROJECT, THIS IS ESSENTIALLY A
REAL ESTATE SUB-DIVISION PROJECT IN WHICH AN
AMERICAN WOULD BE THE MORTGAGOR OF RECORD
(TURBOW'S PUERTO RICAN FINANCIAL CORPORATION)
AND WOULD GAIN POSSESSION IN CASE OF DEFAULT,
AND IN WHICH THE PROCEEDS OF THE MORTGAGES
INSURED BY OPIC WOULD PURCHASE THE LAND FOR THE
PROJECT, AND IN WHICH THERE WOULD BE EVERY LIKELI-
HOOD THAT AMERICANS WOULD COME TO OWN SOME OF THE
HOUSES BUILT BY THE PROJECT, INASMUCH AS ARTICLE 19
OF THE COSTA RICAN CONSTITUTION GIVES FOREIGNERS
THE SAME RIGHTS AS COSTA RICANS (INCLUDING PRESUMABLY
THE RIGHT TO BUY HOUSES).

C) FROM SAN JOSE 192 OF JANUARY 15, 1975; FURTHER ON
ABOVE PLUSE ABSENCE OF SHOWING OF A FAVORABLE DEVELOP-
MENT IMPACT (PARAGRAPH 2); QUESTION OF POSSIBLE
ADVSERSE EFFECTS OF REDIRECTION OF S&L FUNDS FROM
U.S. HOUSING TO OVERSEAS HOUSING (PARAGRAPH 7); LACK
OF AFFIRMATIVE INFORMATION ABOUT THE BONA FIDES OF
THE VARIOUS NON-COSTA RICAN PARTIES INVOLVED IN THIS
PROJECT; AND ABSENCE OF SHOWING THAT LOCAL MORTGAGE
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GUARANTIES WOULD BE AVAILABLE FOR THE PROJECT --
AND THERE IS REASON TO SUPPOSE THAT THEY WOULD
NOT BE AVAILABLE, SINCE THEY ARE NORMALLY OFFERED
FOR HOUSES COSTING A MAXIMUM OF 85,000 COLONES.
LESS THAN ONE-THIRD OF THE VALUE OF HOUSES
TO BE BUILT UNDER THIS PROJECT (PARAGRAPH 10).
D) FROM SAN JOSE 224 OF JANUARY 17, 1975: QUESTION
OF CONGRESSIONAL AUTHORIZATION OR LEGAL AUTHORITY
FOR OPIC HOUSING GURANTY PROGRAM PARALLEL TO THAT
RUN BY A.I.D. (PARAGRAPH 3) ( IT IS THE EMBASSY'S
UNDERSTANDING THAT CONGRESS AMENDED THE FOREGIN
ASSISTANCE ACT IN A WAY THAT IN FACT PRECLUDES OPIC
FROM UNDERTAKING A HOUSING GUARANTY PROGRAM IN
WHICH U.S. SAVINGS AND LOAN INSTITUTIONS COULD
PARTICIPATE); AND RELATED QUESTION OF PUBLIC POLICY

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IN CHANNELING S&L FUNDS INTO UPPER-MIDDLE INCOME HOUSING ABROAD RATHER THAN LOW-COST HOUSING (PARAGRAPH 4).

E) SAN JOSE A-50 OF MAY 6, 1975 ASKED AN IMPORTANT LEGAL QUESTION THAT GETS TO THE HEART OF THE ENTIRE COMPLICATED FINANCIAL STRUCTURE PROPOSED FOR THIS PROJECT, NAMELY, "WHAT IS IT THAT THE MORTGAGE POOL WOULD OWN THAT OPIC WOULD BE ASKED TO INSURE?" THE EMBASSY HAS BEEN INFORMED BY THE PROJECT SPONSORS THAT THE OPIC INSURANCE INSURES THE MORTGAGE POOL IN WHICH U.S. SAVINGS AND LOAN INSTITUTIONS WOULD HAVE A 75 PERCENT PARTICIPATION INTEREST. YET, THE MORTGAGES WOULD NOT BE OWNED BY THE POOL BUT WOULD BE OWNED BY TURBOW'S PUERTO RICAN FINANCIAL CORPORATION. WHAT IS IT THEN THAT THE POOL WOULD OWN THAT OPIC IS BEING ASKED TO INSURE? THERE IS ALSO A QUESTION AS TO WHETHER A MORTGAGE POOL, WHICH APPARENTLY WOULD NOT BE A CORPORATION OR OTHER LEGAL ENTITY BUT RATHER A FINANCIAL CONSTRUCT, WOULD BE ELIGIBLE FOR OPIC INSURANCE. OPIC LEGISLATION STATES THAT INVESTMENT INSURANCE MAY BE ISSUED TO "ELIGIBLE INVESTORS" AND IT DEFINES ELIGIBLE INVESTORS AS U.S. CITIZENS, COPRORATIONS, PARTNERSHIPS, AND OTHER ASSOCIATIONS, INCLUDING NON-PROFIT ASSOCIATIONS, CREATED UNDER THE LAWS OF UNCLASSIFIED



THE U.S. OR ANY STATE OR TERRITORY THEREOF AND SUBSTANTIALLY BENEFICIALLY OWNED BY U.S. CITIZENS. LANE



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# Message Attributes

**Automatic Decaptioning:** X
**Capture Date:** 01 JAN 1994
**Channel Indicators:** n/a
**Current Classification:** UNCLASSIFIED
**Concepts:** HOUSING, PROGRAMS (PROJECTS), REAL PROPERTY ACQUISITION, INVESTMENT GUARANTEES
**Control Number:** n/a
**Copy:** SINGLE
**Draft Date:** 06 JUN 1975
**Decaption Date:** 01 JAN 1960
**Decaption Note:**
**Disposition Action:** n/a
**Disposition Approved on Date:**
**Disposition Authority:** n/a
**Disposition Case Number:** n/a
**Disposition Comment:**
**Disposition Date:** 01 JAN 1960
**Disposition Event:**
**Disposition History:** n/a
**Disposition Reason:**
**Disposition Remarks:**
**Document Number:** 1975SANJO02322
**Document Source:** CORE
**Document Unique ID:** 00
**Drafter:** n/a
**Enclosure:** n/a
**Executive Order:** N/A
**Errors:** N/A
**Film Number:** D750199-0168
**From:** SAN JOSE
**Handling Restrictions:** n/a
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**ISecure:** 1
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**Line Count:** 312
**Locator:** TEXT ON-LINE, ON MICROFILM
**Office:** ACTION EB
**Original Classification:** UNCLASSIFIED
**Original Handling Restrictions:** n/a
**Original Previous Classification:** n/a
**Original Previous Handling Restrictions:** n/a
**Page Count:** 6
**Previous Channel Indicators:** n/a
**Previous Classification:** n/a
**Previous Handling Restrictions:** n/a
**Reference:** 75 STATE 110142
**Review Action:** RELEASED, APPROVED
**Review Authority:** greeneet
**Review Comment:** n/a
**Review Content Flags:**
**Review Date:** 28 FEB 2003
**Review Event:**
**Review Exemptions:** n/a
**Review History:** RELEASED <28 FEB 2003 by PhilliR0>; APPROVED <02 FEB 2004 by greeneet>
**Review Markings:**

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**Review Media Identifier:**
**Review Referrals:** n/a
**Review Release Date:** n/a
**Review Release Event:** n/a
**Review Transfer Date:**
**Review Withdrawn Fields:** n/a
**Secure:** OPEN
**Status:** NATIVE
**Subject:** OPIC HOUSING GUARANTY PROJECT
**TAGS:** EINV, CS, OPIC
**To:** STATE
**Type:** TE
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006